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No. 87-38

IN THE

Supreme Court of the United States

OCTOBER TERM, 1987

GRANADA ELECTRONICS, INC.,
Petitioner,

v.

ORIGINAL APPALACHIAN ARTWORKS, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

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BRIEF OF 47TH STREET PHOTO, INC. AS *AMICUS CURIAE* IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether Section 32 of the Lanham Trademark Act, 15 U.S.C. § 1114(1), applies to merchandise manufactured abroad under a license from the American trademark owner if authentic goods, bearing the licensed trademark, are sold to a United States distributor in breach of the licensee's contract.

TABLE OF CONTENTS

	Page
QUESTION PRESENTED	i
TABLE OF AUTHORITIES	iii
INTEREST OF THE *AMICUS CURIAE*	2
STATEMENT	3
REASONS FOR GRANTING THE WRIT	4
1. Trademark law does not protect a trademark owner against competition from his own authentic product	5
2. Section 32 applies only to spurious goods	6
3. A trademark owner relinquishes control over goods that he has introduced into commerce.	7
CONCLUSION	9

TABLE OF AUTHORITIES

CASES:	Page
A. Bourjois & Co. v. Aldridge, 263 U.S. 675 (1923)	6
A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923). .	6
American Honda Motor Co., Inc. v. Carolina Autosports Leasing and Sales, Inc., 645 F. Supp. 863 (W.D.N.C. 1986).	7
Coalition to Preserve the Integrity of American Trademarks v. United States, 598 F. Supp. 844 (D.D.C. 1984), *rev'd*, 790 F.2d 903 (D.C. Cir.), *cert. granted*, 107 S. Ct. 642 (1986) (Nos. 86-495, 86-624 & 86-625).	7
Franchised Stores of New York, Inc. v. Winter, 394 F.2d 664 (2d Cir. 1968).	6
Haymaker Sports, Inc. v. Turian, 581 F.2d 257 (C.C.P.A. 1978)	6
In re Wella, A.G., 787 F.2d 1549 (Fed. Cir. 1986).	5
K mart Corp. v. Cartier, Inc., cert. granted, 107 S. Ct. 642 (1986) (Nos. 86-495, 86-624 & 86-625)	2
Lever Brothers Co. v. United States, No. 86-3151 (D.D.C. Jan. 21, 1987), *petition for cert. before judgment denied*, 55 U.S.L.W. 3793 (U.S. May 26, 1987).	7
NEC Electronics v. CAL Circuit Abco, 810 F.2d 1506 (9th Cir. 1987).	3, 4
Olympus Corp. v. United States, 792 F.2d 315 (2d Cir.), *petition for cert. filed*, 55 U.S.L.W 3372 (U.S. Nov. 6, 1986) (No. 86-757)	7
Original Appalachian Artworks, Inc. v. Granada Electronics, Inc., 640 F. Supp. 928 (S.D.N.Y. 1986), *aff'd*, 816 F.2d 68 (2d Cir. 1987).	4
Parfums Stern, Inc. v. United States Customs Service, 575 F. Supp. 416 (S.D. Fla. 1983).	5

TABLE OF AUTHORITIES—*(Continued)*

CASES: Page

Pepsico, Inc. v. Grapette Co., 416 F.2d 285 (8th Cir. 1969) 5

Robinson Co. v. Plastics Research and Development Corp., 264 F. Supp. 852 (W.D. Ark. 1967) 6

Siegel v. Chicken Delight, Inc., 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972) 6

VISA, U.S.A., Inc. v. Birmingham Trust Nat'l Bank, 696 F.2d 1371 (Fed. Cir. 1982), *cert. denied*, 464 U.S. 826 (1983) 5

STATUTES:

15 U.S.C. § 1114(1) 4, 6

15 U.S.C. § 1124 ..... 6, 7

15 U.S.C. § 1127 5

19 U.S.C. § 1526 7

TREATISES:

R. Callmann, *The Law of Unfair Competition, Trademarks and Monopolies* (Altman 4th ed. 1983) 5, 8

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BRIEF OF 47TH STREET PHOTO, INC. AS *AMICUS CURIAE* IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI

47th Street Photo, Inc.,[1] respectfully submits this brief as *amicus curiae* in support of the petition for a writ of certiorari to the United States Court of Appeals for the Second Circuit filed by Granada Electronics, Inc.[2]

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1. 47th Street Photo, Inc., has no parent, subsidiary or affiliated companies.

2. Pursuant to Rule 36.1 of the Rules of this Court, consent to the filing of this brief has been granted by both parties. The letters of consent have been lodged with the Clerk of the Court.

INTEREST OF THE *AMICUS CURIAE*

47th Street Photo, Inc., is a New York corporation founded in 1966, whose principal place of business is in New York City. It is an innovative merchandiser of camera, video, computer and other electronic equipment. It sells many products at a discount at its showrooms and through its mail-order catalog. Some of the merchandise offered by 47th Street Photo enters the United States through "parallel importation." The goods are purchased abroad from authorized foreign distributors of those products, rather than in the United States from authorized American distributors. Because the United States marketplace is not as competitive as some foreign markets, the prices charged by many United States distributors of foreign-manufactured goods are higher than the wholesale prices charged for the same goods by authorized foreign distributors. Thus, even after paying transportation costs and customs duties, 47th Street Photo can offer considerable savings to United States consumers by purchasing its inventory from authorized distributors abroad. If 47th Street Photo were forced to purchase equipment at the artificially inflated prices charged by authorized United States distributors, its prices would rise considerably, substantially threatening its ability to do business.

In recent years, holders of domestic trademarks have filed numerous lawsuits under the trademark laws seeking to eliminate competition from parallel importers. To protect the legality of parallel importation, 47th Street Photo has participated in many of these suits. It is presently a petitioner before this Court in *K mart Corporation v. Cartier, Inc.*, Nos. 86-495, 86-624 and 86-625.

The present case concerns the importation into the United States of goods manufactured abroad by the licensee of the United States trademark owner. The Second Circuit's decision that the sale of authentic

goods whose manufacture is licensed by the trademark owner can violate Section 32 of the Lanham Act conflicts with the decision of the Ninth Circuit in *NEC Electronics v. CAL Circuit Abco,* 810 F.2d 1506 (9th Cir. 1987), on a question of great practical importance to manufacturers, distributors, retailers and consumers. Until the conflict between the Circuits is resolved, businesses that must make investments of hundreds of millions of dollars will be unable to plan their marketing programs. Consumers will also be hurt, since they will no longer be able to rely on the practice of parallel importation to keep prices for goods in the United States near the level at which those goods are offered in foreign markets.

STATEMENT

Original Appalachian Artworks, Inc. ("OAA"), the worldwide owner of the registered trademark "Cabbage Patch Kids" for dolls, licensed Coleco Industries, Inc., to manufacture dolls bearing its trademark and to distribute these dolls in the United States. OAA also licensed Jesmar, S.A., to manufacture and distribute dolls bearing OAA's trademark in Spain, Andorra, the Canary Islands and Ceuta Melilla. The Jesmar dolls prominently display the Cabbage Patch Kids trademark, in English, on all panels of the boxes in which the dolls are packaged. All other labeling on the packaging is in Spanish, as are the "birth certificates" and "adoption papers" for the dolls.

Under its license with OAA, Jesmar agreed to sell only in its market and not to sell to a purchaser who would resell outside of Jesmar's territory. Authentic dolls manufactured by Jesmar were nevertheless imported into the United States by Granada Electronics, Inc., the petitioner in this case. The legal issue presented is whether the sale of authentic goods imported in this

manner constitutes trademark infringement in violation of Section 32 of the Lanham Trademark Act, 15 U.S.C. § 1114(1).

The district court found that the Jesmar dolls imported into the United States "will likely cause confusion, mistake and deception on the part of the purchasing public because these dolls with Spanish language adoption papers and birth certificates are not the product those purchasers expect to receive when they purchase a [Cabbage Patch Kid] doll in the United States." *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 640 F. Supp. 928, 931 (S.D.N.Y. 1986). The Court of Appeals' majority held that "even though the [dolls] do bear OAA's trademark and were manufactured under license with OAA, they are not 'genuine' goods because they differ from Coleco's dolls and were not authorized for sale in the United States." *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68, 73 (2d Cir. 1987).

REASONS FOR GRANTING THE WRIT

The decision of the Second Circuit violates established principles of trademark law and opens the door to multiple vexatious lawsuits against firms engaged in lawful sales competition that substantially benefits consumers. Since the decision below conflicts squarely with the ruling of the Ninth Circuit in *NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987), wholly different legal principles will henceforth be applied to lawsuits brought on identical claims in New York and California. We enumerate briefly the fundamental propositions of trademark law that are undermined by the Second Circuit's decision.

1. Trademark law does not protect a trademark owner against competition from his own authentic product.

OAA prevailed below on the ground that consumers will tend to confuse the genuine goods manufactured by one trademark licensee with the genuine goods manufactured by another licensee. But a trademark owner has no trademark right "to insulate itself from what it placed in motion itself through its own foreign manufacturing and distribution sources." *Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416, 419 (S.D. Fla. 1983); *see In re Wella, A.G.*, 787 F.2d 1549, 1552-53 (Fed. Cir. 1986).

The claim that the Lanham Act prevents "intra-brand" consumer confusion flies in the face of the definition of a trademark as a mark applied to distinguish the mark-owner's goods from goods "manufactured or sold by others." *See* 15 U.S.C. § 1127. OAA authorized its mark to be placed on both Coleco's dolls and Jesmar's dolls in order to distinguish these dolls from goods "manufactured or sold by others." There is no support in trademark law or in policy for the Second Circuit's holding that a trademark distinguishes the goods of one licensee from those of another.

To the contrary, a licensor who applies his trademark to materially different goods will generally be held to have abandoned his trademark. *Cf. VISA, U.S.A., Inc. v. Birmingham Trust Nat'l Bank*, 696 F.2d 1371, 1375 (Fed. Cir. 1982), *cert. denied*, 464 U.S. 826 (1983); *Pepsico, Inc. v. Grapette Co.*, 416 F.2d 285, 289 (8th Cir. 1969). A mark will be deemed abandoned if the registrant "causes the mark to lose its significance as an indication of origin." 15 U.S.C. § 1127. Under the trademark law, the licensor has a duty to control the quality of its licensee's merchandise. *See generally* 3 R. Callmann, *The Law of Unfair Competition, Trademarks and Monopolies* § 19.50 (Altman 4th ed. 1983). As the Ninth Circuit has stated:

> The licensor owes an affirmative duty to the public to assure that in the hands of his licensee the trade-mark continues to represent that which it purports to represent. For a licensor . . . to permit inferior products to be presented to the public under his licensed mark might well constitute a misuse of the mark.

Siegel v. Chicken Delight, Inc., 448 F.2d 43, 51 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972); *see also Haymaker Sports, Inc. v. Turian*, 581 F.2d 257, 261 (C.C.P.A. 1978); *Robinson Co. v. Plastics Research and Development Corp.*, 264 F. Supp. 852, 863 (W.D. Ark. 1967).

2. Section 32 applies only to spurious goods.

Section 32 prohibits the use without consent of "any reproduction, counterfeit, copy, or colorable imitation of a registered mark" in the distribution of goods which is likely to cause confusion. *See also Franchised Stores of New York, Inc. v. Winter*, 394 F.2d 664, 667-69 (2d Cir. 1968). Its plain language reaches only counterfeits, copies, or spurious imitations, not authentic or genuine goods manufactured under license. In this respect, Section 32 is *in pari materia* with Section 42 of the Lanham Act, 15 U.S.C. § 1124, which explicitly governs the importation of trademarked merchandise. Section 42 prohibits the importation of goods that "copy or simulate" a United States trademark.[3] The Second Circuit

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3. This Court itself has obliquely addressed the scope of Section 42. In *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923) (per curiam), this Court held in a one-sentence per curiam opinion that under the reasoning of its earlier decision in *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923), the predecessor of Section 42 of the Lanham Act could bar the importation of goods manufactured abroad and bearing a genuine trademark if an independent domestic trademark owner had purchased the United States trademark rights for a product in an arms-length transaction from a foreign

itself stated in *Olympus Corp. v. United States*, 792 F.2d 315, 321 (2d Cir.), *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757):

> The plain language of [Section 42] does not bar importation if the goods are genuine, only if they "copy or simulate" a trademark. . . . [Section 42] applies only to merchandise bearing counterfeit or spurious trademarks that "copy or simulate" genuine trademarks.

Accord American Honda Motor Co., Inc. v. Carolina Autosports Leasing and Sales, 645 F. Supp. 863, 866 (W.D.N.C. 1986); *Lever Brothers Co. v. United States*, No. 86-3151 (D.D.C. Jan. 27, 1987), *petition for cert. before judgment denied*, 55 U.S.L.W. 3793 (U.S. May 26, 1987); *Coalition to Preserve the Integrity of American Trademarks v. United States ("COPIAT")*, 598 F. Supp. 844, 848 (D.D.C. 1984), *rev'd on other grounds*, 790 F.2d 903 (D.C. Cir.), *cert. granted*, 107 S. Ct. 642 (1986) (Nos. 86-495, 86-624 & 86-625).[4]

3. A trademark owner relinquishes control over goods that he has introduced into commerce.

The Second Circuit based its decision on the fundamentally mistaken premise that a trademark holder may exercise control over the subsequent distribution of goods to which a trademark has been lawfully applied. This violates the established rule that it is only the first

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trademark owner. Courts interpreting Section 42 in light of *Aldridge* have consistently limited *Aldridge* to the special equities presented in the *Katzel* and *Aldridge* cases.

4. The Court may wish to defer disposition of the present petition for certiorari to await decision of these cases now on the Court's docket and scheduled for argument on October 6, 1987. Although the questions presented in those cases principally concern Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, rather than the statutory trademark questions presented in this petition, the Court's decision may address issues that would influence the issues raised in this petition.

sale, and not resales, which the trademark holder can control under the trademark law. As the leading commentator states:

> The resale or advertising for sale of the genuine plaintiff's article in its original form, under plaintiff's trademark, affixed by plaintiff's authorization, is not trademark infringement.

3A R. Callmann, *The Law of Unfair Competition, Trademarks and Monopolies* § 21.13, at 62 (Altman 4th ed. 1983) (footnote omitted).

The Second Circuit has expanded the concept of "authorization" beyond rational limits. OAA's claim that it did not "authorize" importation of Jesmar's dolls turns not on any inherent characteristic of the licensee's goods but solely on where the goods are eventually sold to consumers. There is no basis in trademark law for such a construction. If Jesmar violated its licensing agreement with OAA by selling to purchasers who brought the dolls to the United States, OAA's remedy is an action against Jesmar for breach of contract, not an action against Granada Electronics for trademark infringement.

CONCLUSION

For the foregoing reasons, 47th Street Photo respectfully urges that the petition of Granada Electronics, Inc., for a writ of certiorari be granted.

Respectfully submitted,

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